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ABSTRACT

Prospects for Illinois public school revenues and school district reorganization in the 1980's, considered in the context of prospects for the Great Lakes region as a whole, are affected by fundamental demographic and economic changes. The region has had a lower population growth rate since 1970 than the rest of the country, and a slower growth in per capita income. Between 1970 and 1980, Illinois had a 15.9% decline in enrollments, a 13.5% reduction in number of public schools, and a 14% reduction in number of school districts, compared with 10.7%, 5.1%, and 11% respective national decreases. Illinois school revenues between 1970 and 1980 shifted from less local funding (-5.9%) to more federal (+4%) and state (+1.9%) support. Changes in Illinois school funding since 1969 included increased, then decreased, state support. A 1973 study recommended school district reorganization based on minimum enrollments, but was not implemented. The 1981-82 Illinois Public School Finance Project proposed a Resource Cost Model for school finance (based on cost of education indices and program cost differentials) which would adjust state aid to local districts according to costs of local educational programming and differences in local tax bases. A 1977 state law on farmland tax assessment procedures could prompt considerable school district reorganization. (MH)

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PROSPECTS FOR PUBLIC SCHOOL REVENUES AND LOCAL SCHOOL DISTRICT REORGANIZATION IN ILLINOIS IN THE 1980s

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Prospects for Public School Revenues and Local
School District Reorganization in Illinois in the 1980s

Public education is receiving a considerable amount of national attention today, and several recent studies and reports have offered their prescriptions for improving schooling. Perhaps the most publicized of these reports, A Nation at Risk, by the National Commission on Excellence in Education, has been the harshest critic, warning of "a rising tide of mediocrity" in the public schools (National Commission on Excellence in Education, 1983). The overall conclusions of this study have sparked a national debate on schooling, and several states are currently considering different possible educational reforms which include increased beginning teacher salaries to attract more qualify persons to the profession, an extension in the length of the school day or school year to provide more instructional time, and school district reorganization to capture various cost savings.

Most policy makers would agree that major educational reforms, to be successful, will require more money, and yet the growth in revenues for the public schools during the latter 1970s and early 1980s slowed considerably, and the prospects for increased revenues during the late 1980s do not look good. This country was plagued with major economic downturns or recessions during the last decade which served to constrain the growth in school revenues. In addition, these adverse economic conditions appear to have had more pronounced effects on certain regions and states of the country than on

others. The rate of economic growth that a particular state enjoys in the coming years may significantly influence the amount of revenues that it may have available for the public schools. And in a similar manner, the amount of revenues available in a state may significantly influence the types of educational reform that it is able to implement.

This paper advances the basic theme that several factors, e.g., prospects for economic growth, changing demographic an economic conditions, recent trends in taxation, and the condition of public school finance, will converge to promote local school district reorganization and consolidation in Illinois in the coming years. The paper begins by considering the economic prospects for the five Great Lakes states as a whole--Illinois, Indiana, Michigan, Ohio, and Wisconsin, and then notes the developing demographic and economic trends which impact on the economic growth of this region. The general outlook for school revenues in the Great Lakes states is discussed, and trends in taxation systems in this region, including the slowdown in taxing and spending, are also reviewed. The paper then describes the current condition of school finance and local school district organizaion in Illinois, and concludes that the early 1980s may represent an opportune time for the State to incorporate fiscal incentives into its school finance system to promote, or at least facilitate, school district reorganization at the local level.

Prospects for Economic Growth in the Great Lakes Region

Future revenue prospects for the schools in the Great Lakes states will be significantly affected by the amount of future economic growth which occurs in the Midwest, and this rate of economic growth in turn will depend in

large measure on how well the region is able to exploit its particular strengths and minimize its particular weaknesses. As a region, the Great Lakes states have a large industrial base and a highly skilled labor force. In addition, these states have significant natural resources, including the rich land itself, abundant fresh water, and even large deposits of energy resources such as coal, oil shale, and biomass. Although the Midwest is wealthy, the Great Lakes states continued to be plagued by adverse demographic and economic trends largely beyond their control which will continue to constrain opportunities for economic growth.

Population Shifts

Total population for the United States increased by 13.4 percent for 1960-70, and 11.4 percent for 1970-80 (Table 1). Both the North Central and Northeast regions recorded population gains considerably below the gains made by the rest of the country as measured by percentage change. The South and West, however, have recorded population gains considerably above the national average growth rates. For the 1970s, for example, the North Central and Northeast regions gained 3.9 ad 0.2 percent population, respectively, whereas the South and West gained 19.1 and 22.7 percent respectively.

All states in the North Central region have lagged considerably behind the national average growth rate of 13.4 percent since 1970.* In the Great Lakes subregion, the most populous states, Ohio, Illinois, and Michigan,

*The North Central region consists of two subregions: the seven Plains states and the five Great Lakes states.

TABLE 1

REGIONAL POPULATION, BY PERCENT CHANGE, AND FOR GREAT LAKES STATES, BY PERCENT CHANGE, 1960-1980

	1960-70	1970-80	1970-75	1975-80
United States	13.4	11.4	6.0	5.1
North Central	9.4	3.9	2.2	1.7
Great Lakes				
Illinois	10.2	2.8	1.8	1.0
Indiana	11.4	5.4	3.0	2.3
Michigan	13.5	4.2	2.5	1.6
Ohio	9.8	1.3	1.1	0.3
Wisconsin	11.8	6.5	3.4	3.0
Northeast	9.6	0.2	0.8	-0.6
South	13.8	19.1	10.8	8.3
West	21.4	22.7	10.8	11.9

Source: U.S. Bureau of the Census, population reports for various decades; U.S. Bureau of the Census, Preliminary Estimates of Intercensal Population for the States, 1981.

are experiencing the slowest population growth. Ohio's population, for example, increased 1.1 percent frm 1970 to 1975, and only 0.3 percent from 1975 to 1980. Similarly, Illinois and Michigan recorded increases of 1.8 and2.5 percent, and 1.0 and 1.6 percent, respectively, for these same time periods. Wisconsin, the least populous state, had the greatest increases of 3.4 and 3.0 percent.

Personal Income

Growth in personal income is a key determinant of a state's economic well-being and its ability to raise tax revenues in general and school revenues in particular. Historically, the older industrialized states in the Mideast and Midwest have always been considered wealthy in terms of personal income. Over the past 50 years, however, there has been a gradual equalization of growth rates in personal income across the different regions of the country. While a ranking of the different regions in terms of per capita incomes would remain basically unchanged today, the wealthy regions, including the Great Lakes region, have become relatively less rich over the decades, whereas the less wealthy regions have become less poor (ACIR, Report A-74, 1980, chapter 2).

The data in Table 2 display per capita state personal income as a percentage of the U.S. average, by regions, and by Great Lakes states for the past 50 years. Per capita personal income as a percentage of the U.S. average has declined moderately in the Great Lakes area from 109 to 102 percent from 1929 to 1981. At the same time, there is considerable variation in changes within the Great Lakes area, with Illinois experiencing the most dramatic decline, followed by Ohio and Michigan. Over the years, Indiana has

TABLE 2

PER CAPITA STATE PERSONAL INCOME AS A PERCENTAGE
OF THE U.S. AVERAGE, BY REGIONS, AND BY GREAT LAKES STATES
SELECTED YEARS, 1929-81

State and Region	Per Capita Personal Income 1981	Per Capita Personal Income as a Percentage of U.S. Average				
		1981	1974	1964	1944	1929
United States	$10,491	100	100	100	100	100
Great Lakes	10,656	102	104	105	107	109
Illinois	11,576	110	117	117	117	136
Indiana	9,720	93	97	99	100	87
Michigan	10,790	103	109	109	116	113
Ohio	10,313	98	102	103	111	111
Wisconsin	10,035	96	96	97	93	97
Plains	10,270	98	94	88	87	76
New England	11,058	105	97	99	101	112
Mideast	11,301	108	116	117	122	141
Southeast	9,014	86	83	74	67	53
Southwest	10,405	99	85	84	81	69
Rocky Mountain	10,056	96	91	90	94	84
Far West	11,669	111	106	111	126	117

Source: ACIR, M-135, April, 1983, Table 52, p. 79.

registered an increase in per capita income, whereas Wisconsin has remained relatively stable compared with the rest of the country.

These significant demographic and economic trends which have occurred throughout the 1960s and 1970s appear to have even accelerated during the early 1980s. In addition, these trends are expected to continue for the foreseeable future continuing to limit opportunities for economic growth in the Great Lakes region. It appears that some fundamental economic changes are occurring across the country, and that the growing competition among the Sunbelt and the Frostbelt states for people, capital, and jobs will become even more intense.

Other Important Economic Factors

Unfortunately, there are several other economic factors at work which will also continue to have an adverse effect on economic growth in the Great Lakes region. First, experts expect the economic sector involving services and finance to grow fairly rapidly in the coming decade, but they forecast that "smokestack" industries will experience very little or almost no growth during this period. Second, recent investments in new capital have been relatively low in the Midwest, although state governments in the Great Lakes area are now moving rapidly to attract high technology industries in an effort to promote economic growth. Third, agriculture plays a vitally important role in the economy of these states, yet agriculture is expected to decline over the next decade in terms of its relative importance as an industry. Fourth, this country's continued tight monetary policy, which is now part of Reaganomics, will continue to constrain exports which are terribly important to the vitality of the midwestern economy. (Illinois, for example, is

typically one of the top three states in manufacturing, agricultural, and total exports.) Finally, the Great Lakes area receives the lowest return of any region in the country on the tax dollars that it sends to the federal government, and there is some real concern that Reagan's "New Federalism" may make this bad situation even worse (ACIR, M-123, October 1980, Table 12, p. 17, and Schoeplein, 1981).

These changing demographic and economic factors, along with the recent economic downturns or recessions have exerted a disproportionately negative effect on the economic growth in the Great Lakes region when compared with other regions of the country. Although opportunities for economic growth will depend largely on the vitality and health of the national economy, the Midwest may find itself in a "no win" situation. To be sure, if the national economy experiences a period of relative expansion and growth, the economies of the Great Lakes states will respond in a similar manner. But even if the national economy enters a cycle of rapid expansion, the economic gains enjoyed by the Great Lakes states probably will not be as significant on a relative basis as those gains enjoyed by other regions of the country, such as the South and West. Similarly, if the national economy continues its cycle of slowed economic growth, the Great Lakess states, in particular, can expect a continuing deterioration of the relative economic advantage they have always enjoyed over other regions of the country.

The General Outlook for School Revenues in the Great Lakes Region

Before examining the general outlook for school revenues, selected characteristics of the state educational systems in the Great Lakes region are considered. At the same time, the two major national trends which have had a significant affect on school revenues in the Midwest, namely, declining school enrollments and shifting sources of school revenues, are also considered. The data in Table 3 depict the significant variation which exists across the major characteristics, e.g., average expenditures per pupil, enrollment sizes, number of school districts, and state support levels, of the state educational systems in this region. These data also disclose the significant changes which have occurred in most of these characteristics over the past decade.

In terms of spending for the public schools, the average expenditure per pupil for the country as a whole for the 1981-82 school years was $2,672. For the Great Lakes states, this measure ranged from $3,282 in Michigan to $2,369 in Indiana. Illinois (111 percent), Michigan (123 percent), and Wisconsin (116 percent) had expenditures per pupil about the national average expenditure per pupil, while Indiana (89 percent) and Ohio (93 percent) had expenditures per pupil below the national average.

Declining Enrollments

The United States had a total public school enrollment of nearly 41 million students in 1980. Total public school enrollment declined by approximately 11 percent from 1970 to 1980, and is expected to decline until 1984, representing an overall decline for the country of approximately 15

TABLE 3

SELECTED CHARACTERISTICS OF EDUCATION SYSTEMS IN THE GREAT LAKES STATES

Characteristics	U.S.	State IL	IN	MI	OH	WI
Expenditure Per Pupil, 1981/82	$2,672	$2,975	$2,369	$3,282	$2,494	$3,098
Expenditure Per Pupil as A Percentage of the U.S. Average	100%	111%	89%	123%	93%	116%
Public School Enrollment, 1980/81 ('000)	40,984	1,983	1,056	1,863	1,957	830
Percent Change in Public School Enrollment, 1970-80	-10.7%	-15.9%	-14.2%	-14.9%	-19.3%	-16.5%
Number of Public Schools, 1980/81	86,198	4,304	2,079	3,837	3,958	2,134
Percent Change in Number of Public Schools, 1970-80	-5.1%	-13.5%	-4.6%	-.7%	-7.1%	-10.4%
Number of School Districts, 1980/81	15,981	1,013	306	575	615	433
Percent Change in Number of School Districts, 1970-80	-11%	-14%	-3%	-8%	-3%	-5%
Sources of Revenues as a % of Total, 1980/81						
Federal Support Level	8.5%	9.4%	5.5%	8.0%	7.7%	6.3%
Change in Support Level, 1970-80	+1.6	+4.0	+1.5	+4.3	+3.0	+3.2
State Support Level	48.8%	40.1%	59.7%	35.8%	41.6%	36.3%
Change in Support Level, 1970-80	+7.7	+1.9	+27.2	-9.7	+12.8	+7.5
Local Support Level	42.7%	50.5%	34.8%	56.2%	50.7%	57.0%
Change in Support Level, 1970-80	-9.3	-5.9	-28.8	+5.3	-15.8	-10.6

Source: Rows 1, 3, and 4 from National Education Association, Estimates of School Statistics, 1971-72 and 1981-82 Editions, Tables 1, 8, and 10, respectively; rows 2 and 3 from National Center for Education Statistics, The Condition of Education, 1982 Edition, Table 2.3.

percent from the peak year of 1970 to about 1985. Elementary school enrollments are expected to bottom out around 1984, whereas secondary school enrollments are expected to bottom out around 1990. The subsequent anticipated growth in school enrollment for the country is expected to be gradual, and also to remain below previous peak enrollment figures (Projection of Educational Statistics to 1988-89, 1980).

For the most part, the pattern of enrollment declines across the country basically reflects the general trends in population shifts to the west and south. The greatest declines in public school enrollments for the 1970s have occurred in the Plains, Mid-Atlantic, Great Lakes, and New England regions. There was considerable variation across regions in enrollment changes, but all Great Lakes states had significant enrollment declines during this period -- there were no exceptions. Ohio experienced enrollment losses at approximately twice the national rate of decline, while the rate for the remaining four states was approximately one-third higher than the national rate of decline for this period.

These significant enrollment losses across the country and in the Great Lakes states are reflected in the declining number of public schools and school districts. Nationally, the number of public schools declined by 5.1 percent from 1970 to 1980, and the number of school districts declined by 11 percent for the same period. In the Great Lakes area, Illinois, for example, has closed schools at about three times the national rate of school closings, and has reduced the number of its school districts at a somewhat greater rate than the national rate of school district reductions.

In addition, recent projected changes in school-age population for 1985 to 2000 disclose that the Great Lakes states (except Wisconsin), along

with the Mid-Atlantic states, will experience the smallest increases in school enrollments of all regions across the country. Illinois (-6.6 percent) and Ohio (-5.3 percent) are projected for an actual decline in school-age population, Indiana (+5.2 percent) and Michigan (+1.4 percent) for modest increases, and Wisconsin (+12.5 percent) for a larger increase (U.S. Department of Education, December, 1982, p. 29).

Shifting Sources of Revenues

There has been a gradual shift over time in the relative reliance placed on the different major sources of state and local revenues. This shift from the local property tax to state sources of revenues, such as the general sales tax or income tax, appears to have accelerated during the 1970s, and has been most pronounced in the area of public school finance. As states reformed their school finance structures during the 1970s, they basically increased their average support levels to the public elementary and secondary schools in an effort to hold down property taxes. The data in Table 3 indicate that the state share of revenue for the public schools for the states as a whole increased steadily throughout the decade, from 41.1 percent in 1970 to 48.8 percent in 1980 (an increase of 7.7 percent). As expected, then, the local share of revenue decreased steadily throughout the decade, from 52 percent in 1970 to 42.7 percent in 1980 (a decrease of -9.3 percent).

All five Great Lakes states "reformed" or substantially modified their school finance systems during the 1970s. The adoption of these reforms was basically accomplished by significantly increasing state support levels to the public schools. For the 1980-81 school year, state support levels varied considerably across the Great lakes states. Compared with a national average

of 48.8 percent of state revenues for the schools, Indiana (59.7 percent) exhibited a rather high support level, whereas Illinois (40.1 percent), Michigan (35.8 percent), Ohio (41.6 percent), and Wisconsin (36.8 percent) exhibited state support levels considerably below the national average level. In Illinois and Michigan, the state share of costs for the schools increased significantly during the early 1970s, only to decline during the latter 1970s. In Indiana and Ohio, the increase was dramatic throughout the decade, and in Wisconsin the increase was gradual.

Trends in School Revenues

Revenues for the public schools increased dramatically during the 1970s, both in nominal and in real terms. Total revenues for the public schools in current dollars increased from $39.6 billion in 1970-71 to $96.8 billion in 1980-81, a nominal percentage increase of 144 percent. The constant dollar amount for 1970-71 in 1980-81 dollars is $86.2 billion which represents a real percentage increase of 12 percent. When considered on a per pupil basis, these fiscal gains became even more impressive. Total operating expenditures per pupil, for example, increased from $911 in 1970-71 to $2,553 in 1980-81, a nominal percentage increase of 180 percent. The constant dollar amount for 1970-71 in 1980-81 dollars is $1982 which represents a real percentage increase of 29 percent (NCES, Projections of Education Statistics to 1990-91, Volume I, 1982, Table 27, p. 106).

Given this tremendous growth in public school revenues for the United States as a whole during the 1970s, it is not altogether surprising that these gains in school resources began to slow down in the early 1980s. This growth in revenues began to slow down in nominal terms during the latter 1970s, and

actually leveled off and started to decline in real terms around 1978. From 1979 to 1980, school revenues increased in current dollars across all three governmental levels, resulting in a $6.2 billion gain in nominal terms, but when adjusted for inflation, school revenues actually declined, again across all three governmental levels, resulting in a $4.5 billion drop in real terms (Odden and Augenblick, 1981, pp. 29-30). These national totals, of course, are based on widely different patterns and levels across individual regions and states. Nevertheless, this national pattern of declining revenues in real terms for the public schools toward the late 1970s can be seen across the Great Lakes area as well.

Another perspective of school revenues is provided by considering the relative increases in revenues per pupil which have occurred in current dollars across the states over the last decade. The data in Table 4 display the national average percentage increases in revenues for the schools during the 1970s, and indicate the relative increases in Great Lakes states as an index of the national average percentage increase. The caveat must be presented, however, that while these percentage increases reflect the relative gains made, they do not reveal anything about differences with regard to the absolute revenue levels in the states.

For the decade, for total revenues, Illinois (86 percent), Indiana (72 percent), and Michigan (97 percent) had percentage increases in school revenues below average, and Ohio (106 percent) and Wisconsin (109 percent) had percentage increases in school revenues above the national average of 165 percent. As would be expected, the relative percentage increases across the states in state and local revenues, which comprise the bulk of the revenues for the schools, closely paralleled the relative percentage increases in total

TABLE 4

CHANGES IN REVENUES PER PUPIL FOR THE ELEMENTARY AND SECONDARY SCHOOLS IN THE GREAT LAKES STATES AS A PERCENTAGE OF THE U.S. AVERAGE INCREASE, 1970-1980

	Percent Increase	Index of Average United States Increase					
	U.S.	U.S.	IL	IN	MI	OH	WI
1970/71 - 1980/81							
- Total Revenues	165	100	86	72	97	106	109
- State and Local Revenues	161	100	81	73	92	106	106
- Federal Revenues	213	100	170	66	205	110	192
1970/71 - 1980/81							
- Total Revenues	63	100	84	62	67	79	100
- State and Local Revenues	60	100	85	63	60	118	103
- Federal Revenues	94	100	108	73	194	67	116
1970/71 - 1980/81							
- Total Revenues	63	100	92	92	130	111	113
- State and Local Revenues	63	100	84	94	130	92	109
- Federal Revenues	61	100	211	69	147	172	236

Source: National Education Association, Estimates of School Statistics, 1971-72, 1976-77, and 1981-82 Editions.

revenues. The relative percentage increases in federal revenues for the schools, however, varied considerably across the states. Illinois (170 percent), Michigan (205 percent), and Wisconsin (192 percent), far surpassed the national average percentage increase of 213 percent. Ohio exceeded the national average percent increase by 10 percent, but Indiana was about 35 percent below the national average percentage increase.

The Slowdown in Taxing and Spending

There has been a general slowdown in governmental taxing and spending at all governmental levels in recent years. The data in Table 5 disclose that this slowdown has occurred across the entire country, but that the magnitude of the recent decline does vary across regions and states. For the United States as a whole, state and local tax revenue as a percent of personal income increased from 10.4 percent in 1965 to 12.3 percent in 1975, but then decline to 11.3 percent in 1981. In terms of the variations across the regions, state and local revenue as a percent of personal income from 1975 to 1981 decreased from 13.9 to 13.1 percent for the high tax Mideast region, and decreased from 10.7 to 10.1 percent, and from 11.1 to 10.6 percent, for the Southeast and Southwest regions, respectively. The Far West region exhibited the greatest decrease in revenue from 14.1 to 11.3 percent from 1975 to 1980. The Rocky Mountain region was the only one demonstrating a modest increase in revenue from 11.8 to 11.9 percent from 1975 to 1980, but then down to 11.2 percent in 1981.

For the Great Lakes as a whole, state and local tax revenue as a percent of personal income increased from 9.7 percent in 1965 to 11.3 percent in 1975 but then declined to 10.6 percent in 1981. The data in Table 5 also

TABLE 5

STATE AND LOCAL TAX REVENUE AS A PERCENT OF PERSONAL INCOME , BY REGION AND BY GREAT LAKES STATES, SELECTED YEARS, 1965-1981

State and Region	1981	1980	1975	1965
United States	11.3	11.6	12.3	10.4
Great Lakes	10.6	10.7	11.3	9.7
Illinois	11.0	11.2	11.7	8.9
Indiana	9.2	8.8	11.2	10.2
Michigan	11.6	11.5	11.7	10.7
Ohio	9.2	9.4	9.7	8.6
Wisconsin	12.2	12.5	13.8	12.5
Plains	10.4	10.8	11.7	10.8
New England	11.8	12.3	12.8	10.0
Mideast	13.1	13.7	13.9	10.5
Southeast	10.1	10.3	10.7	10.0
Southwest	10.6	10.4	11.1	10.2
Rocky Mountain	11.2	11.9	11.8	11.6
Far West	11.3	11.9	14.1	11.8

Source: ACIR, M-135, April, 1983, Table 22.1, p. 38.

disclose considerable variation across the Great Lakes area. It should be noted first that the Great Lakes region is not a high tax area. The region has been consistently below the national average in state and local tax revenue as a percentage of personal income from 1965 to 1981. Over the years, Wisconsin has consistently demonstrated high tax effort in terms of state and local revenue as a percent of personal income, Illinois and Michigan about average tax effort, and Ohio low tax effort. In an extreme shift, the data for Indiana for the latter 1970s reveal a sharp drop in revenues from 11.1 to 8.8 percent, but then up to 9.2 percent in 1981.

Despite this general slowdown, and despite the fact that some of the Great Lakes states had adopted tax limitation provisions during the 1970s, they all had to increase their taxes during the early 1980s because of the economic recession which began around 1980. In 1981 and 1982, four of the five Great Lakes states were forced to increase their taxes. During this period, Indiana, Michigan, Ohio, and Wisconsin all increased their taxes on motor fuel, alcoholic beverages, and/or tobacco. Indiana and Ohio increased their taxes on both general sales and individual income, whereas Michigan increased its taxes on just individual income and Wisconsin on just general sales (Shannon and Calkins, 1983). In 1983, these four states all enacted tax increases again, this time usually increasing significantly their taxes on income on a permanent basis. After Illinois adopted various measures and tactics in 1981 and 1982 which simply delayed an inevitable tax increase, the State passed a major tax package in 1983 including a temporary increase in the state income tax and a permanent increase in state sales tax, as well as tax increases on motor fuel and alcoholic beverages.

If a prediction were to be made with regard to future prospects for public school revenues in the Great Lakes states based on trends and occurrences over the past decade, the prediction would have to be for a continued slowdown in school revenues in the coming years. Furthermore, the economic and demographic trends, which have prompted or promoted this slowdown in school revenues in the Great Lakes states appear to have become even more pronounced during the early 1980s. On the other hand, one prominent trend of the 1970s, that pertaining to the shifting sources of school revenues from the local to the state level, does not seem likely to continue throughout the 1980s. Already there is substantial evidence that state tax revenues are declining and local revenues are increasing in support of the schools.

School Finance and School District Organization in Illinois

Illinois significantly "reformed" its general school aid formula in 1973, at a time when the political climate was favorable for school finance reform. In 1969, the legislature enacted individual and corporate income taxes, and a year later, in 1970, Illinois adopted a new state constitution. The new revenue from the income taxes provided the needed money for reforming school finance, and the new constitution, which specified that "the State as the primary responsibility for financing the system of public education" provided a strong rationale for increasing the state support level to the schools.

The Condition of School Finance

In recent years, the condition of public school finance in Illinois has deteriorated considerably. Following the adoption of the resource equalizer model in 1973, the State's share of the costs for the public schools as a percent of the total costs increased dramatically from 34.4 percent in 1974-75 to 48.4 percent in 1975-76 (See Table 6). Unfortunately for the schools, the State's share of the costs for the public schools has declined steadily since this peak year of 1975-76, amounting to 38.9 percent in 1982-83, which was the same approximate percentage of its share when the new school aid formula was adopted in 1973. This rapid and steady decline in the state support level as a percentage of the total costs for the schools since 1975-76, along with the gradual reduction in the federal support level since 1979-80, has resulted in increasing relative reliance on the local property tax base in Illinois.

At the same time, the property tax base itself has been in a state of flux in Illinois, particularly during the late 1970s and early 1980s. In 1980, the legislature finally phased out the corporate personal property tax and addressed the problems associated with implementing replacement revenue for the schools. While the transition period in replacing the corporate personal property tax with other revenue sources has constrained revenue growth in certain school districts, a new law enacted by the General Assembly in 1977 basing new farmland assessment procedures in part on agricultural production and soil quality could affect many more school districts. These significant changes in farmland assessment practices, in fact, could prompt considerable school district reorganization in the State as an unintended side-effect.

A key component in the passage of the original 1977 farmland assessment legislation was a "hold harmless" provision which neutralized some

TABLE 6

PERCENTAGE OF STATE, LOCAL, AND FEDERAL RECEIPTS OF FUNDS FOR THE PUBLIC SCHOOLS IN ILLINOIS, 1971-72 TO 1982-83

YEAR	STATE	LOCAL	FEDERAL
1982-83	38.9	53.3	7.8
1981-82	40.1	50.9	8.9
1980-81	43.1	48.1	8.8
1979-80	42.3	47.4	10.2
1978-79	43.9	47.3	8.8
1977-78	44.3	46.3	9.3
1976-77	46.9	45.5	7.6
1975-76	48.4	45.2	6.5
1974-75	34.4	59.9	5.7
1973-74	38.1	56.4	5.5
1972-73	36.7	57.2	6.0
1971-72	37.4	56.7	5.9

Source: Illinois State Board of Education, State, Local, and Federal Financing for Illinois Public Schools, 1982-83, October, 1982, Table 1, p. 3.

minor opposition to the proposed changes by preventing equalized assessed property valuations from falling below 1976 levels. Taxing bodies, therefore, were guaranteed at least the same amount of revenues that the 1976 farmland property assessments had generated, and also were assured that no radical change would occur in their given status quo. At the same time, however, these taxing bodies were denied the potential increase in revenues they may have obtained if the new farmland assessment changes had not been adopted.

These assessment changes could have potentially significant differential effects on the various taxing bodies, including local school districts across the state. If left unchecked, the new assessment practices will result in some school districts, for example, having significantly increased tax bases, with other having substantially reduced tax bases. As the new legislation has been implemented, it has become clear that its unintended effects could be dramatic. For this reason, the legislature extended the "hold harmless" provision in 1978, amended the original legislation to change the production assessment index from an individual county to a statewide basis in 1979, and enacted an 8 percent limitation on the growth of equalized assessed valuations of farmland in 1980.

Furthermore, while these trends on the revenue side involving a declining state support level and a changing property tax base are unsettling, the basic trend on the expenditure side involving an increasingly less equitable general school aid formula is even more disturbing. Over the years, the equity effects of this new formula have been carefully monitored by Alan Hickrod and his colleagues. Because of Hickrod's work, Illinois is one of the few states for which an adequate longitudinal data base has been established for assessing the effects of school finance changes.

These researchers found that Illinois essentially made progress toward the established equity goals of less expenditure disparity and greater wealth neutrality for a period of approximately four years, from 1973 to 1977. They reported that much of the ground gained during this period, however, was lost from 1977 to 1981, concluding that this reversal in equity trends has resulted in the loss of all gains that had been made with regard to expenditure disparities in the bulk of Illinois' school districts, and some of the gains that had been made with regard to wealth neutrality (Hickrod, Chaudhari, and Hubbard, 1979, 1981). In a recent report, they (Hickrod, Chaudhari, Hubbard, and Lee, 1982) explored and discussed this theme of reformation and counter-reformation, and conclude that Illinois will continue to move away from its equity goals unless significant changes are made in the state's school finance system.

The Status of School District Organization

Illinois is one of three remaining states (along with California and Texas) which still has more than 1000 local school districts. Reflecting a national pattern, the number of local school districts declined dramatically in Illinois throughout the latter 1940s and early 1950s. This pattern of decline continued in Illinois, although at a much lower rate, throughout the 1960s, and even into the early 1970s. Since the early 1970s, however, very little progress has been made in reducing the high number of local school districts in the state. In 1981, Illinois had 1,010 local school districts, consisting of 437 elementary, 125 secondary, and 448 unit school districts (see Table 7), significantly more than the number of school districts in comparable states such as Michigan (575) and Ohio (615).

TABLE 7

NUMBER OF OPERATING SCHOOL DISTRICTS IN ILLINOIS, JULY, 1981

Total	25,000 or over	10,000 to 24,999	5,000 to 9,999	2,500 to 4,999	1,000 to 2,499	600 to 999	300 to 599	Less Than 300
			Elementary School Districts (K-8)					
437	0	2	7	38	101	58	73	158
			Secondary School Districts (9-12)					
125	0	2	12	18	34	16	12	31
			Unit School Districts (K-12)					
448	3	10	22	35	120	112	121	25
1,010*	3	14	41	91	225	186	206	214

*Excludes Department of Corrections District

Source: Illinois Public School Finance Project, "Obstacles To School District Reorganization in Illinois Public School Districts," July, 1982, Table 2, p. 10.

While there has been considerable activity in terms of educational research, policy analysis, and legislative enactments in the school finance area, very little attention has been focused on the status of school district reorganization in the State over the last decade. The last comprehensive study on school district organization in Illinois was the Opportunities for Excellence report in 1973 (Governor's Commission on Schools, 1973). After concluding that school district size (enrollment) is a critical factor affecting the quality of local educational opportunities, this study presented both a statement of goals for school district reorganization, as well as a sweeping agenda for change based on a mandated plan for the reorganization of the State's school districts. Among its more controversial recommendations, the report urged that new school districts be established based on the following minimum enrollment standards:

District Type	Program Scope	Enrollment Minimum
Unit Districts	K - 12	1,500 Pupils
Elementary Districts	K - 8	1,000 Pupils
Secondary Districts	9 - 12	500 Pupils

In addition, the study was quick to point out that these enrollment standards were minimum standards, and still considerably smaller than what many persons might consider optimum.

After justifying these minimum enrollment standards, the study pointed out that in Illinois, on a statewide basis, 63 percent of all districts were below these minimum standards, and that 47 percent of all public school students attended schools operated by districts of less than minimum size for their type, e.g., unit, elementary, secondary. Furthermore, with regard to wealth, on a statewide basis, 58 percent of all districts were below average wealth for their type, and 67 percent of all students attended

schools operated by districts of less than average wealth for their type. Of the state's 1,084 school districts at the time, 339 or 31 percent failed to meet both minimum size and average wealth criteria.

The reorganization plan recommended that attention be given first to those districts having both less than the minimum enrollments and less than the average wealth for their type. The second phase of the plan directed attention to those remaining districts which had above-average wealth, but insufficient enrollments to enable them to put the wealth to efficient educational use. Finally, the Opportunities for Excellence report recommended that the statewide reorganization plan include financial incentives for reorganization. These proposed fiscal incentives for reorganization included provisions to make sure that districts would not lose any state aid as a result of reorganization, to address problems associated with existing debt retirement, and to alleviate the repayment of capital costs that might be incurred because of reorganization.

The General Assembly never confronted the issues examined in the Opportunities for Excellence report, and consequently very little has changed in terms of the status of school district reorganization in Illinois since the study was completed in 1973. Nevertheless, given the significant shifts in demographic and economic factors, as well as the dramatic decline in school enrollments, its basic findings, conclusions, and recommendations are probably more applicable today than they were ten years ago. The General Assembly not only did not enact any of the proposed fiscal incentives for facilitating school district reorganization, it never took the time in the last 10 years to eliminate any of the existing procedural or financial impediments to school district reorganization. It is not surprising that there have been very few

attempts to reorganize school districts in Illinois the the last ten years.

The Illinois Public School Finance Project recently reviewed the status of school district reorganization in Illinois by summarizing the statutory procedures specified for reorganization, and by identifying the various procedural and financial obstacles which communities must confront if they choose to reorganize or consolidate (Illinois State Board of Education, July, 1982). After considering the various legal requirements in The School Code of Illinois affecting school district boundary changes (e.g., the petitioning process, the role of an affected district), and certain charactristics of the school finance system affecting the reorganization of different types of districts (e.g., maximum permissive tax rates, state aid disincentives), the study presents the following basic conclusions:

1. Separate elementary and secondary school districts have greater access to non-referendum taxing authority than do unit districts.
2. Combined districts may receive significantly less general state aid in the reorganized mode as opposed to their existing status.
3. The sharing of existing debt after reorganization may cause some districts to experience an additional tax burden.
4. The existing statutes are inconsistent in the limitations they place on some forms of district reorganization.
5. The protection given to affected districts in a reorganization may impinge on the petitioning districts' ability to effect change within their district structure.

This study recommends that the local taxing authority of unit districts should be equal to the sum of local taxing authority for both elementary and high school districts, and that the statutes governing school district reorganization should be thoroughly reviewed in order to remove the various inconsistencies which have developed over the years.

The Recent Illinois Public School Finance Project

The Illinois State Board of Education initiated a comprehensive school finance research project in early 1981. For the past two years, the Illinois Public School Finance Project (IPSFP) has been basically concerned with the development of a set of recommendations for implementation of a new system of school finance in the state. The Technical Advisory Panel (TAP) which was appointed by the State Board to direct and assist the project staff and its consultants recently issued its final report (Illinois State Board of Education, September, 1983). The TAP presented "a comprehensive system for financing Illinois public education" based on 44 recommendations which were partitioned into the following three organizational categories: 1) Distribution of State and Federal Funds, 2) Generation of Revenues, and 3) Management of Resources.

The IPSFP consisted of approximately twenty separate but interrelated studies, the bulk of which were conducted by the State Board's own staff, such as the one just described which examined obstacles to school district reorganization. The two studies conducted by the external consultants, Associates for Education Finance and Planning (AEFP), which serve as a basis for the developmemt of a Resource Cost Model (RCM) approach to school finance, however, provide the foundation for the proposed new system. The basic premise of the RCM approach is that the state aid received by local districts should be adjusted for valid variations in the costs of local educational programming, as well as for differences in local tax bases. The RCM consists of two basic components--the cost of Education Indices (CEI), and the Program Cost Differentials (PCD), which accommodate the major sources of educational cost differences. The CEI and PCD indices are integrated into a comprehensive

framework which address both variations in the resource costs and variations in the resource configurations necessary to provide access to appropriate educational services for each school district. CEI adjustments provide access to comparable resources for all districts. PCD components provide differential access to the resources necessary to meet the needs of a specific student population in each district.

The implementation of this comprehensive set of recommendations, along with the adoption of the Resource Cost Model approach, would substantially change the public school finance program in Illinois. Preliminary simulations indicate that the use of the RCM approach during the 1981-82 school year would have cost $5.3 billion in total. Although all local school districts spent $5.2 billion in total during that year, many individual districts spent much less than the resource cost model could have required for certain services. The TAP predicted it would have taken another $1 billion to bring all districts up to the level of services specified by the RCM. The State Board is currently clarifying and refining the recommendations by the IPSFP, and plans to use them as a basis for proposing new legislation in the General Assembly next spring.

A Changing Environment and Today's Reality

Some fundamental demographic and economic changes are occurring across the country. The impact of these changes has been more pronounced in the Midwest region, and in particular, in the five Great Lakes states than in some other regions of the country. Although the Great Lakes area is wealthy

in terms of its ability-to-pay, the significant population shifts to the South and West, and the relative decline in personal income growth, continue to erode its tax base. In addition, other economic factors and trends involving "smokestack industries", export markets, defense spending, and the like, are also serving to depress the rate of economic growth in this region as compared with the growth rates in other segments of the country. Furthermore, the Great Lakes states in general, and Illinois in particular, are projected for below average annual real growth rates in personal income when compared with the country as a whole (U.S. Department of Commerce, November, 1980, Table 2, p. 47, and Table 3, p. 49). There is no evidence to suggest that these changes and trends appear to be slowing.

While slowed economic growth in the Midwest has served to narrow the tax base, the recent slowdown in taxing and spending has also constrained the generation of public revenues. Although public school revenues increased considerably in nominal terms during the 1970s, the rate of these increases began to decrease during the latter 1970s. Public school revenues began to decline in real terms for the first time around 1978, and many state budgets for the public schools were sharply reduced during the latter 1970s and early 1980s. Education has not fared well in the Midwest during the early 1980s, and this is particularly true in Illinois.

The substantial tax increase in Illinois in 1983 did not provide any "new" funds for the schools, but it has at least temporarily halted the deteriorating condition of education. This tax package adressed the State's immediate needs, but it didn't provide any permanent solution or any significant reform. In addition, the tax increase was predicated on an improving economy, and much of the new revenue generated through the tax

increase this year will be used to pay last year's deferred bills. Already there is talk about the necessity of another tax increase in 1984 (an election year), or at least of the possibility of making the temporary increase (for 18 months) in the state income tax a permanent change.

The short-range revenue prospects for the public schools in Illinois look bleak. Most would agree that major educational reform, to be significant, will require a big influx of state revenues for the public schools. For this reason, the expectation that the General Assembly will enact major school finance reform this spring may be unrealistic. The comprehensive changes proposed for the Illinois school finance system may be sound and needed, but the required price tag may be prohibitive. The set of recommendations by the IPSFP may be too ambitious, and it's not inconceivable the this report may lie dormant, just as the recommendations of the previous report, Opportunities for Excellence, were never addressed.

On the other hand, it would seem that a merging set of conditions will prompt the careful consideration of school district reorganization on the part of several school districts throughout the state in the coming years. Given today's reality with regard to the fiscal situation, school district reorganization is a reform that does not have to be a costly proposition. Certain school districts may be forced to consolidate depending on the extent to which they experience declining enrollment problems, the extent to which they must rely on a constricting local property tax base, or the extent to which they have flexibility in closing buildings (attendance areas) within their own districts. The time appears opportune for the state to incorporate incentives into its school finance system to promote, or at least facilite, school district reorganization or consoliation. Let's hope that ten years

from now someone isn't referring to the recently completed IPSFP study, and suggesting that the time may be opportune for the adoption of an RCM approach to the state's school finance problems.

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